

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF NORTH MUSKEGON	County MUSKEGON
Fiscal Year End 11/30/07	Opinion Date 3/11/08	Date Audit Report Submitted to State 3/14/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	NO OTHER ITEMS REQUIRED		
Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC		Telephone Number 231-726-5800		
Street Address 316 MORRIS AVE., SUITE 500		City MUSKEGON	State MI	Zip 49443
Authorizing CPA Signature <i>Timothy D. Arter, CPA</i>		Printed Name TIMOTHY D. ARTER		License Number 10253

for Brickley DeLong, PLC

City of North Muskegon
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended November 30, 2007

City of North Muskegon

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As management of the City of North Muskegon, we present to the readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended November 30, 2007. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the City had total assets of \$15,090,956 and total liabilities of \$2,087,617 leaving net assets of \$13,003,339, an increase of 3.13% in the City's overall net assets.
- Of the total \$13,003,339 in net assets, the City may use \$1,781,896 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$4,098,365, made up of governmental revenues of \$2,862,868 and business-type revenues of \$1,235,497.
- Total expenses for all of the City's programs were \$3,703,248. Of that total, the governmental expenses were \$2,605,406 and the business-type expenses were \$1,097,842.
- The City received a \$20,645 FEMA grant which was used to purchase water rescue equipment, two defibrillator units, fire hose and miscellaneous personal protective equipment.
- The City completed several capital asset projects during the year including the resurfacing of its tennis courts for \$30,854, the repainting of the City water tower for \$112,409 (a two-year project) and the building of a concrete catch basin on Lake Drive for \$15,817. The City also replaced a water main under Bear Lake Channel for \$109,071.
- The City was awarded a grant in 2006 from the Michigan Department of Natural Resources (MDNR) Trust Fund for 64% of the estimated cost of \$325,000 for the improvement to the area known as Waterfront Sports Park. The project included site clearing and grading, expanding the existing soccer field, constructing a new playground area, picnic pavilion, lake observation pier, lake access ramp, concrete sidewalk, paved parking area, site lighting and other related work. The project was completed in 2007 and the \$20,800 final retainage amount was received from MDNR.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the City include general government, public safety, public works and cultural and recreational activities. The business-type activities of the City include water distribution and sewer services.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories-governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Streets, Local Streets, Contingent and Reserve and Millage funds, which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds. The City has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provided separate information for Water and Sewer funds both of which are major funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General, Major Streets, Local Streets and Contingent and Reserve funds.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the City. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of November 30, 2007, the City's net assets from governmental activities totaled \$10,170,232 (78%) and \$2,833,107 (22%) from business-type activities, creating a total government-wide net assets total of \$13,003,339.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the City's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$938,058. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

The business-type activities show a total of \$2,833,107 in net assets including \$843,838 in unrestricted net assets. The Sewer Fund and Water Fund unrestricted net assets are \$301,760 and \$543,677, respectively.

The increase in current assets and other assets reflects the positive change in net assets in the governmental activities. Capital assets decreased because current year depreciation exceeded capital purchases as there were few significant capital additions. Current liabilities declined as there were some large payables for the Block 58 project in the previous year as well as an accrual for a legal contingency that did not materialize and was reversed in the current year. Noncurrent liabilities continue to decline as scheduled debt payments are made. Invested in capital assets, net of related debt decreased as capital assets decreased more than the related long-term debt. Restricted net assets increased as the City did not spend all of its Act 51 funds this year.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current assets and other assets	\$ 2,398,427	\$ 2,264,112	\$ 964,642	\$ 1,033,139	\$ 3,363,069	\$ 3,297,251
Capital assets	8,975,382	9,181,437	2,752,505	2,702,353	11,727,887	11,883,790
Total assets	11,373,809	11,445,549	3,717,147	3,735,492	15,090,956	15,181,041
Current liabilities	264,127	476,309	192,998	262,970	457,125	739,279
Noncurrent liabilities	939,450	1,056,470	691,042	777,070	1,630,492	1,833,540
Total liabilities	1,203,577	1,532,779	884,040	1,040,040	2,087,617	2,572,819
Net assets						
Invested in capital assets, net of related debt	7,991,744	8,115,834	1,989,269	1,871,916	9,981,013	9,987,750
Restricted	1,240,430	1,052,519	-	-	1,240,430	1,052,519
Unrestricted	938,058	744,417	843,838	823,536	1,781,896	1,567,953
Total net assets	\$ 10,170,232	\$ 9,912,770	\$ 2,833,107	\$ 2,695,452	\$ 13,003,339	\$ 12,608,222

City of North Muskegon

Management's Discussion and Analysis

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows changes in net assets.

Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues						
Charges for services	\$ 168,248	\$ 136,915	\$ 1,200,742	\$ 1,204,156	\$ 1,368,990	\$ 1,341,071
Operating grants	331,286	327,010	-	-	331,286	327,010
Capital grants and contributions	57,832	213,659	-	-	57,832	213,659
General revenues						
Property taxes	1,687,034	1,639,706	-	-	1,687,034	1,639,706
Franchise fees	32,569	21,911	-	-	32,569	21,911
Grants and contributions not restricted	334,078	339,758	-	-	334,078	339,758
Unrestricted investment earnings	88,252	82,388	34,755	33,257	123,007	115,645
Miscellaneous	163,569	72,684	-	-	163,569	72,684
Gain on sale of capital assets	-	3,352	-	-	-	3,352
Total revenues	2,862,868	2,837,383	1,235,497	1,237,413	4,098,365	4,074,796
Expenses:						
General government	523,226	638,394	-	-	523,226	638,394
Public safety	1,072,714	971,800	-	-	1,072,714	971,800
Public works	740,225	633,723	-	-	740,225	633,723
Culture and recreation	233,677	195,942	-	-	233,677	195,942
Interest on long term debt	35,564	38,601	-	-	35,564	38,601
Sewer	-	-	277,375	328,276	277,375	328,276
Water	-	-	820,467	859,886	820,467	859,886
Total expenses	2,605,406	2,478,460	1,097,842	1,188,162	3,703,248	3,666,622
Change in net assets	257,462	358,923	137,655	49,251	395,117	408,174
Net assets - Beginning	9,912,770	9,553,847	2,695,452	2,646,201	12,608,222	12,200,048
Net assets - Ending	\$ 10,170,232	\$ 9,912,770	\$ 2,833,107	\$ 2,695,452	\$ 13,003,339	\$ 12,608,222

At year-end, on November 30, 2007, net assets increased by \$257,462 in governmental activities and \$137,655 in business-type activities. This resulted in an increase of \$395,117 government-wide.

Governmental Activities

Property tax revenues increased due to growth in the City's taxable value. Because the majority of the Waterfront Sports Park grant was received in 2006, the capital grants and contributions line shows a decrease. Miscellaneous revenue increased as the City had recorded an estimate for a legal contingency in the previous year that did not occur and was therefore reversed in the current year. General government expenditures decreased because of the aforementioned accrual of a legal contingency in the previous year. Public safety expenses increased as the City purchased various supplies and small equipment with the capital grant and depreciation expenses increased with the purchase of a fire truck in the previous year.

Business-type Activities

Business-type activities were relatively comparable to the prior year with a slight drop in sewer and water usage. Sewer expenses decreased because the City did some sewer relining maintenance projects in 2006.

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2007 fiscal year, the City governmental funds reported a combined unreserved fund balance of \$1,657,748. This number represents the unreserved fund balance of \$25,000 in the General Fund, \$850,473 in Major Streets, \$210,489 in Local Streets, \$565,162 in Contingent and Reserve and \$6,624 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for advances to other funds (\$7,898) and for capital projects (\$179,468). When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$1,845,114, which consists of a fund balance of \$25,000 in the General Fund, \$850,473 in Major Streets, \$210,489 in Local Streets, \$573,060 in Contingent and Reserve, \$173,664 in Millage Fund plus the fund balance of \$12,428 in other governmental funds.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets of the Sewer fund increased by \$62,329 and the Water fund net assets increased by \$71,828. The result was an overall net increase in the proprietary funds of \$134,157.

General Fund Budget

During the current fiscal year, the City made several amendments to its original General Fund budget. The most significant of those is listed below:

- Licenses and permits revenue was originally budgeted for \$61,300 and was amended up to \$78,222 because a larger than anticipated amount of permits were sold.
- Federal revenue was originally not budgeted and was amended up to \$21,122 because the fire department received a FEMA grant which was used to purchase equipment.
- Street department expenditures were originally budgeted for \$89,871 and were amended up to \$111,500 because of additional salt and ice melting chemicals purchased prior to year end and a summer curb painting project.
- Recreation facilities expenditures were originally budgeted for \$47,600 and were amended up to \$64,000 to cover expenditures needed to complete the Waterfront Sports Park.
- Other governmental expenditures were originally budgeted for \$644,715 and were amended down to \$612,638 largely due to a decrease in health care costs brought about by a restructuring of employee and retiree benefits.
- Transfers out were originally budgeted for \$33,500 and was amended up to \$70,575 because of a larger than anticipated year end transfer to the Contingent & Reserve Fund.

Budget Variations

The following comments summarize the major variations from the final budget to actual revenues and expenditures in the General Fund.

- Recreation facilities were \$51,284, \$12,716 less than budgeted because expenditures relating to completing the Waterfront Sports Park were reclassified to a capital outlay account.
- Transfers out were \$139,291, \$68,716 more than budgeted because of a larger than anticipated year end transfer to the Contingent & Reserve Fund. See Note J for additional information.

Capital Assets

The City investment in capital assets for its governmental and business-type activities as of November 30, 2007 totaled \$11,727,887 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery, equipment, and vehicles.

Major capital asset events during the current fiscal year included the following:

- The City completed work on the Block 58 Sports Park which had a total cost of \$538,497. This cost was incurred over the past two years.
- The City resurfaced the park tennis courts for \$30,854.
- The City built a concrete catch basin on Lake Drive for \$15,817.
- Repainting of the City water tower was completed at a total cost of \$112,409. This cost was incurred over the past two years.
- The City built a water main under Bear Lake Channel for \$109,071.

CAPITAL ASSETS (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 4,946,506	\$ 4,946,506	\$ 1,500	\$ 1,500	\$ 4,948,006	\$ 4,948,006
Construction in progress	9,775	492,115	-	97,995	9,775	590,110
Land improvements	634,257	104,098	-	-	634,257	104,098
Buildings and improvements	726,710	772,586	10,576	11,495	737,286	784,081
Vehicles and equipment	646,613	758,414	7,624	10,900	654,237	769,314
Infrastructure	2,011,521	2,107,718	-	-	2,011,521	2,107,718
Sewer system	-	-	699,888	717,453	699,888	717,453
Water system	-	-	2,032,917	1,863,010	2,032,917	1,863,010
Total	<u>\$ 8,975,382</u>	<u>\$ 9,181,437</u>	<u>\$ 2,752,505</u>	<u>\$ 2,702,353</u>	<u>\$ 11,727,887</u>	<u>\$ 11,883,790</u>

Additional information on the City's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

Long-term Debt

At the end of the 2007 fiscal year, the City had total outstanding debt of \$1,898,135 consisting of general obligations bonds, revenue bonds, Michigan Transportation Fund bonds, and compensated absences. Approximately \$660,000 or (28%) of the City's outstanding debt represented in the table below is recorded as revenue bonds. The payment of this debt service is anticipated through the revenues generated from the water and sewer services in the enterprise funds.

OUTSTANDING DEBT

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 950,000	\$ 1,025,000	\$ 110,377	\$ 147,094	\$ 1,060,377	\$ 1,172,094
Michigan Transportation Fund bonds	45,000	55,000	-	-	45,000	55,000
Revenue bonds	-	-	660,000	710,000	660,000	710,000
Compensated absences	118,450	122,470	14,308	13,775	132,758	136,245
Total	<u>\$ 1,113,450</u>	<u>\$ 1,202,470</u>	<u>\$ 784,685</u>	<u>\$ 870,869</u>	<u>\$ 1,898,135</u>	<u>\$ 2,073,339</u>

The City's total debt decreased by \$175,204 during the fiscal year. This decrease was due to scheduled debt payments.

Additional information on the City's long-term debt can be found in Note I of the "Notes to the Financial Statements" of this report.

General Economic Overview

Property Tax Revenues

Michigan state property tax revenue increases are greatly influenced by the 1994 Amendment to the State Constitution, commonly referred to as "Proposal A". The statewide tax reform amendment limits the growth in taxable value on any unsold individual property to the lesser of inflation or 5 percent. When property is transferred, the resulting Headlee rollback, caused by the uncapping of taxable values, actually results in other property owners paying less than the rate of inflation. Because the City of North Muskegon is a "mature" community with few parcels available for the building of new homes, the effect of this rollback is magnified. The result is slower growth in the City's property tax revenues.

The City's charter allows for the collection of 10 mills per dollar of taxable value assessed to each property owner. The City's 2007 general operating millage rate will be rolled back to 9.3849 by the Headlee Amendment, which was designed to limit the growth of property tax revenue by controlling the formula used to calculate property taxes. In the 2007/08 budget year, the City anticipates a 4.7% increase in property tax revenue which will result in \$1,356,172 of general operating revenue, a \$60,445 increase over 06/07 levels.

In addition to the operating millage, the City will collect 1.3 of an allowable 2.5 mills for yard waste collection which will generate \$187,856, an \$8,427 increase over last year. The 1.5 mill Public Safety millage, a 10-year charter amendment millage used to purchase public safety equipment and to repay bonds issued for the Ruddiman Drive repaving project will generate \$216,757, an additional \$9,723 over last year's revenue.

State Shared Revenues and Grants

Typically, the second largest source of municipal revenue is state shared sales tax revenue. Over the past several years, the State's budget challenges have caused a reduction in revenue sharing payments to local governmental units. During the past six years the City's General Fund has experienced a total reduction in state shared revenues of \$99,779 as compared to fiscal year 2000 levels.

The City's 2007/08 budget reflects a decrease of an additional 6%, which translates into a \$20,500 loss in State Shared Revenue in the 2007/08 year.

General Fund

The 2008 General Fund budget anticipates a break-even year for the City. The 2007 budget reflected the arrival of the remaining \$20,800 state grant awarded for various improvements to the City's waterfront sports park and a FEMA grant of \$20,645, used to purchase water rescue and personal protective equipment and two defibrillator units.

Funding of Other Post Employment Benefits Requirement

The Governmental Accounting Standards Board (GASB) established standards in 1994 regarding how public employee pension plans and governmental employers participating in pension plans should account for and report on pension benefits, but until recently, similar provisions did not exist for Other Post Employment Benefits (OPEB). GASB believes that both pension benefits and OPEB are a part of the compensation that employees earn each year, even though these benefits are not received until after their employment has ended. In an effort to clarify the complete costs of public services and to help readers of financial statements analyze the financial position and long-run financial health of a government, GASB developed standards to ensure that the nature and size of each governmental entity's financial obligations and commitments are presented in a qualitative manner.

The City of North Muskegon must begin reporting their OPEB liability (actual amount will be determined by an actuarial valuation) in the 2009/10 fiscal year. Financial statements of entities which do not set aside money to fund the liability will include a liability in the government-wide financial statements for the unfunded amount. Even though there is presently no mandate to fund the liability, there is reason to believe that future bond ratings may be affected if large liabilities are created.

Because of these upcoming requirements, the city implemented a trust fund through the Municipal Employees Retirement System to provide a safe vehicle to maximize the long-term rate of return on dollars set aside for this purpose. The 2007 budget included \$29,000 which was transferred to this trust fund to begin our OPEB funding. The 2008 budget ensures that an additional \$16,000 will be added to that amount.

Major Streets and Local Streets Funds

Budgets for revenues and usual annual expenditures in both the 2008 Major and Local Streets Fund budgets are consistent with 2007 figures with the exception of the 2008 capital outlay projects planned which include crack sealing various streets and the reconstruction of a storm water outfall in Major Streets.

Sewer and Water Funds

The City purchases its water from the City of Muskegon's water treatment plant. Due to water rate increases by Muskegon, North Muskegon implemented a two step rate increase in 2004 and 2005. No further rate adjustments are anticipated during the 2008 fiscal year.

The City will implement a 30% sewer rate usage increase starting in January of 2008. There will be a slight decrease in the sewer debt service charge which reflects a reduction in County bond payments.

The City plans to loop the water main running from Linderman to Moulton Avenue in the forthcoming year. This will eliminate any potential disinfection byproducts in this area.

Requests for Information

This financial report is designed to provide a general overview of the City of North Muskegon's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of North Muskegon, 1502 Ruddiman Drive, North Muskegon, Michigan, 49445, (231) 744-1621.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

March 11, 2008

Honorable Mayor and Members
of the City Council
North Muskegon
North Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Muskegon as of and for the year ended November 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of North Muskegon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Muskegon, as of November 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - x and 30 - 33 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Muskegon's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



City of North Muskegon
STATEMENT OF NET ASSETS
November 30, 2007

ASSETS

	Governmental activities	Business-type activities	Total
CURRENT ASSETS			
Cash and investments	\$ 2,175,259	\$ 556,816	\$ 2,732,075
Receivables	22,507	252,380	274,887
Due from other governmental units	118,470	-	118,470
Internal balances	1,599	(1,599)	-
Inventories	5,000	38,000	43,000
Total current assets	2,322,835	845,597	3,168,432
NONCURRENT ASSETS			
Capital assets, net			
Nondepreciable	4,956,281	1,500	4,957,781
Depreciable	4,019,101	2,751,005	6,770,106
Bond issuance costs, net	11,362	7,143	18,505
Special assessments receivable	64,230	111,902	176,132
Total noncurrent assets	9,050,974	2,871,550	11,922,524
Total assets	11,373,809	3,717,147	15,090,956

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable and accrued liabilities	67,412	9,670	77,082
Due to other governmental units	-	89,685	89,685
Deferred revenue	22,715	-	22,715
Bonds and other obligations, due within one year	174,000	93,643	267,643
Total current liabilities	264,127	192,998	457,125
NONCURRENT LIABILITIES			
Bonds and other obligations, less amounts due within one year	939,450	691,042	1,630,492
Total liabilities	1,203,577	884,040	2,087,617
NET ASSETS			
Invested in capital assets, net of related debt	7,991,744	1,989,269	9,981,013
Restricted for:			
Streets and highways	1,060,962	-	1,060,962
Capital projects	179,468	-	179,468
Unrestricted	938,058	843,838	1,781,896
Total net assets	\$ 10,170,232	\$ 2,833,107	\$ 13,003,339

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF ACTIVITIES
For the year ended November 30, 2007

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities							
General government	\$ 523,226	\$ 18,000	\$ -	\$ 500	\$ (504,726)	\$ -	\$ (504,726)
Public safety	1,072,714	54,111	100	21,122	(997,381)	-	(997,381)
Public works	740,225	64,544	331,186	15,410	(329,085)	-	(329,085)
Culture and recreation	233,677	31,593	-	20,800	(181,284)	-	(181,284)
Interest on long-term debt	35,564	-	-	-	(35,564)	-	(35,564)
Total governmental activities	2,605,406	168,248	331,286	57,832	(2,048,040)	-	(2,048,040)
Business-type activities							
Sewer	277,375	331,833	-	-	-	54,458	54,458
Water	820,467	868,909	-	-	-	48,442	48,442
Total business-type activities	1,097,842	1,200,742	-	-	-	102,900	102,900
Total government	\$ 3,703,248	\$ 1,368,990	\$ 331,286	\$ 57,832	(2,048,040)	102,900	(1,945,140)
General revenues							
Property taxes					1,687,034	-	1,687,034
Franchise fees					32,569	-	32,569
Grants and contributions not restricted to specific programs					334,078	-	334,078
Unrestricted investment earnings					88,252	34,755	123,007
Miscellaneous					163,569	-	163,569
Total general revenues					2,305,502	34,755	2,340,257
Change in net assets					257,462	137,655	395,117
Net assets at December 1, 2006					9,912,770	2,695,452	12,608,222
Net assets at November 30, 2007					\$ 10,170,232	\$ 2,833,107	\$ 13,003,339

The accompanying notes are an integral part of this statement.

City of North Muskegon
BALANCE SHEET
Governmental Funds
November 30, 2007

	General Fund	Major Streets Fund	Local Streets Fund	Contingent and Reserve Fund	Millage Fund	Other governmental funds	Total governmental funds
ASSETS							
Cash and investments	\$ 81,142	\$ 821,910	\$ 190,339	\$ 495,621	\$ 173,664	\$ 20,579	\$ 1,783,255
Receivables							
Accounts	11,439	-	-	-	-	-	11,439
Special assessments	-	-	69,867	-	-	5,431	75,298
Due from other governmental units	78,861	29,184	10,425	-	-	-	118,470
Due from other funds	-	-	-	69,541	-	-	69,541
Advances to other funds	-	-	-	7,898	-	-	7,898
Total assets	<u>\$ 171,442</u>	<u>\$ 851,094</u>	<u>\$ 270,631</u>	<u>\$ 573,060</u>	<u>\$ 173,664</u>	<u>\$ 26,010</u>	<u>\$ 2,065,901</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 24,450	\$ 260	\$ 66	\$ -	\$ -	\$ 1,155	\$ 25,931
Accrued liabilities	29,735	361	190	-	-	184	30,470
Due to other funds	69,541	-	-	-	-	-	69,541
Deferred revenue	22,716	-	59,886	-	-	4,345	86,947
Advances from other funds	-	-	-	-	-	7,898	7,898
Total liabilities	146,442	621	60,142	-	-	13,582	220,787
Fund balances							
Reserved for:							
Advances	-	-	-	7,898	-	-	7,898
Capital projects	-	-	-	-	173,664	5,804	179,468
Unreserved, undesignated							
General Fund	25,000	-	-	-	-	-	25,000
Special revenue funds	-	850,473	210,489	565,162	-	6,624	1,632,748
Total fund balances	25,000	850,473	210,489	573,060	173,664	12,428	1,845,114
Total liabilities and fund balances	<u>\$ 171,442</u>	<u>\$ 851,094</u>	<u>\$ 270,631</u>	<u>\$ 573,060</u>	<u>\$ 173,664</u>	<u>\$ 26,010</u>	<u>\$ 2,065,901</u>

The accompanying notes are an integral part of this statement.

City of North Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 November 30, 2007

Total fund balance—governmental funds		\$ 1,845,114
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 11,033,701	
Accumulated depreciation	<u>(2,157,335)</u>	8,876,366

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	18,496	
Accumulated amortization	<u>(7,134)</u>	11,362

Accrued interest in governmental activities is not reported in the governmental funds.	(5,600)
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Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.	64,231
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Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds and notes payable	(995,000)	
Compensated absences	<u>(118,450)</u>	(1,113,450)

Internal service funds are used by management to charge the costs of certain activities
to individual funds. The assets and liabilities of the internal service funds are reported
with governmental activities in the Statement of Net Assets.

	<u>492,209</u>
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Net assets of governmental activities in the Statement of Net Assets	\$ <u><u>10,170,232</u></u>
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The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended November 30, 2007

	General Fund	Major Streets Fund	Local Streets Fund	Contingent and Reserve Fund	Millage Fund	Other governmental funds	Total governmental funds
REVENUES							
Property taxes	\$ 1,480,048	\$ -	\$ -	\$ -	\$ 206,987	\$ -	\$ 1,687,035
Licenses and permits	80,202	-	-	-	-	-	80,202
Intergovernmental revenues							
Federal	21,122	-	-	-	-	-	21,122
State	352,988	206,907	75,898	-	-	-	635,793
Charges for services	84,818	-	-	3,800	-	10,286	98,904
Fines and forfeitures	11,338	-	-	-	-	-	11,338
Investment earnings	33,847	37,206	15,168	25,860	8,521	1,456	122,058
Other	100,607	-	9,981	91,234	-	3,106	204,928
Total revenues	2,164,970	244,113	101,047	120,894	215,508	14,848	2,861,380
EXPENDITURES							
Current							
General government	351,139	-	-	-	-	-	351,139
Public safety	663,841	-	-	-	1,241	-	665,082
Public works	318,714	109,531	121,496	-	-	-	549,741
Culture and recreation	129,700	-	-	-	-	19,690	149,390
Other governmental functions	600,148	-	-	-	-	-	600,148
Debt service							
Principal	-	-	10,000	-	75,000	-	85,000
Interest and fees	-	-	2,345	-	33,619	-	35,964
Capital outlay	87,011	-	15,818	-	-	-	102,829
Total expenditures	2,150,553	109,531	149,659	-	109,860	19,690	2,539,293
Excess of revenues over (under) expenditures	14,417	134,582	(48,612)	120,894	105,648	(4,842)	322,087
OTHER FINANCING SOURCES (USES)							
Transfers in	124,874	-	-	130,691	-	8,600	264,165
Transfers out	(139,291)	-	-	(116,928)	(7,946)	-	(264,165)
Total other financing sources (uses)	(14,417)	-	-	13,763	(7,946)	8,600	-
Net change in fund balances	-	134,582	(48,612)	134,657	97,702	3,758	322,087
Fund balances at December 1, 2006	25,000	715,891	259,101	438,403	75,962	8,670	1,523,027
Fund balances at November 30, 2007	\$ 25,000	\$ 850,473	\$ 210,489	\$ 573,060	\$ 173,664	\$ 12,428	\$ 1,845,114

The accompanying notes are an integral part of this statement.

City of North Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended November 30, 2007

Net change in fund balances—total governmental funds	\$	322,087
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (276,237)	
Capital outlay	<u>102,829</u>	(173,408)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	85,000
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	400
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	4,020
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Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.	(13,086)
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The internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.	<u>32,449</u>
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Change in net assets of governmental activities	\$ <u><u>257,462</u></u>
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The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF NET ASSETS
Proprietary Funds
November 30, 2007

ASSETS

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service fund
	Sewer	Water	Total	
CURRENT ASSETS				
Cash and investments	\$ 245,750	\$ 311,066	\$ 556,816	\$ 392,005
Receivables				
Accounts	74,329	158,012	232,341	-
Special assessments	1,440	18,599	20,039	-
Inventories	<u>6,000</u>	<u>32,000</u>	<u>38,000</u>	<u>5,000</u>
Total current assets	327,519	519,677	847,196	397,005
NONCURRENT ASSETS				
Capital assets				
Land	-	1,500	1,500	-
Utility systems	1,238,796	2,841,764	4,080,560	-
Buildings and improvements	-	13,795	13,795	-
Equipment	33,906	17,034	50,940	724,301
Less accumulated depreciation	<u>(565,363)</u>	<u>(828,927)</u>	<u>(1,394,290)</u>	<u>(625,285)</u>
Net capital assets	707,339	2,045,166	2,752,505	99,016
Bond issuance costs, net	-	7,143	7,143	-
Special assessments receivable	<u>5,760</u>	<u>106,142</u>	<u>111,902</u>	<u>-</u>
Total noncurrent assets	713,099	2,158,451	2,871,550	99,016
Total assets	1,040,618	2,678,128	3,718,746	496,021
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	1,362	15	1,377	4,982
Accrued liabilities	533	7,760	8,293	429
Due to other governmental units	23,957	65,728	89,685	-
Bonds and other obligations, due within one year	<u>36,043</u>	<u>57,600</u>	<u>93,643</u>	<u>-</u>
Total current liabilities	61,895	131,103	192,998	5,411
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	<u>2,668</u>	<u>688,374</u>	<u>691,042</u>	<u>-</u>
Total liabilities	<u>64,563</u>	<u>819,477</u>	<u>884,040</u>	<u>5,411</u>
NET ASSETS				
Invested in capital assets, net of related debt	674,295	1,314,974	1,989,269	99,016
Unrestricted	<u>301,760</u>	<u>543,677</u>	<u>845,437</u>	<u>391,594</u>
Total net assets	<u>\$ 976,055</u>	<u>\$ 1,858,651</u>	2,834,706	<u>\$ 490,610</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>(1,599)</u>	
Net assets of business-type activities			<u>\$ 2,833,107</u>	

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended November 30, 2007

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service funds
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 327,833	\$ 856,429	\$ 1,184,262	\$ 143,371
OPERATING EXPENSES				
Administration	18,635	21,976	40,611	1,276
Operations	218,633	706,869	925,502	85,040
Depreciation and amortization	38,839	54,010	92,849	35,682
Total operating expenses	276,107	782,855	1,058,962	121,998
Operating income	51,726	73,574	125,300	21,373
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	9,089	25,666	34,755	14,574
Connection fees	4,000	12,480	16,480	-
Interest expense	(2,486)	(39,892)	(42,378)	-
Total nonoperating revenues (expenses)	10,603	(1,746)	8,857	14,574
Change in net assets	62,329	71,828	134,157	35,947
Net assets at December 1, 2006	913,726	1,786,823		454,663
Net assets at November 30, 2007	\$ 976,055	\$ 1,858,651		\$ 490,610
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds			3,498	
Change in net assets of business-type activities			\$ 137,655	

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended November 30, 2007

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service funds
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 325,516	\$ 851,773	\$ 1,177,289	\$ -
Receipts from interfund services provided	1,052	5,947	6,999	143,371
Payments to suppliers	(170,643)	(717,915)	(888,558)	(72,138)
Payments to employees	(43,964)	(79,454)	(123,418)	(22,985)
Payment for interfund services used	(8,157)	(15,264)	(23,421)	-
Net cash provided by operating activities	103,804	45,087	148,891	48,248
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Connection fees	5,440	36,379	41,819	-
Purchases of capital assets	-	(123,485)	(123,485)	-
Principal paid on capital debt	(33,358)	(53,360)	(86,718)	-
Interest paid on capital debt	(2,486)	(39,892)	(42,378)	-
Net cash used for capital and related financing activities	(30,404)	(180,358)	(210,762)	-
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	9,089	25,666	34,755	14,574
Net increase (decrease) in cash and investments	82,489	(109,605)	(27,116)	62,822
Cash and investments at December 1, 2006	163,261	420,671	583,932	329,183
Cash and investments at November 30, 2007	<u>\$ 245,750</u>	<u>\$ 311,066</u>	<u>\$ 556,816</u>	<u>\$ 392,005</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 51,726	\$ 73,574	\$ 125,300	\$ 21,373
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization expense	38,839	54,010	92,849	35,682
Change in assets and liabilities				
Receivables, net	(1,265)	1,291	26	-
Accounts payable	(80)	(30,563)	(30,643)	(8,586)
Accrued liabilities	636	460	1,096	(221)
Due to other governmental units	13,948	(53,685)	(39,737)	-
Net cash provided by operating activities	<u>\$ 103,804</u>	<u>\$ 45,087</u>	<u>\$ 148,891</u>	<u>\$ 48,248</u>

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Fund
November 30, 2007

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ <u>8,491</u>
LIABILITIES	
Due to other governmental units	\$ 1,281
Other liabilities	<u>7,210</u>
Total liabilities	\$ <u>8,491</u>

The accompanying notes are an integral part of this statement.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS
November 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of North Muskegon (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and six-member City Council and is administered by a city manager appointed by the City Council. Generally accepted accounting principles require that if the City has certain oversight responsibilities over other organizations, those organizations should be included in the City's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of the City's major streets.

The Local Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of the City's local streets.

The Contingent and Reserve Fund is used to account for the excess revenues received or provides for deficiencies incurred in the General Fund.

The Millage Fund is used to account for property taxes received for public safety and Ruddiman Drive repaving.

The City reports the following two major proprietary funds:

The Sewer Fund operates the City's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

The Water Fund operates the City's water distribution system.

Additionally, the City reports the following fund types:

Internal Service Funds account for equipment management services provided to other funds of the government on a cost reimbursement basis.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 state taxable value for real/personal property of the City totaled approximately \$138,002,000. The ad valorem taxes levied consisted of 9.3878, 1.3 and 1.5 mills for the City's general operating, rubbish collection and public safety/Ruddiman repaving purposes. These amounts are recognized in the respective General Fund and Millage Fund.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets—Continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include only items acquired since December 1, 2003 as allowed by generally accepted accounting principles.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-30
Buildings and improvements	10-35
Vehicles and equipment	4-25
Infrastructure	10-50

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Upon termination, employees are paid for vacation days and one-half of their accrued sick days as separation pay under limits that vary by employment group. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the commencement of the fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following December 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. No later than November 30, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the year ended November 30, 2007, actual expenditures exceeded appropriations for transfers out by \$68,716 in the General Fund. These overexpenditures were funded with available fund balance.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE C—DEPOSITS AND INVESTMENTS

As of November 30, 2007, the City had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Fitch's	Percent
External investment pool	\$ 1,126,374	21	not rated	90.6 %
External investment pool	<u>117,463</u>	<u>43</u>	AAA	<u>9.4</u>
Total fair value	<u>\$ 1,243,837</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>23</u>		

The City voluntarily invests certain excess funds in external pooled investment pools (Pools). The Pools are external investment pools of "qualified" investments for Michigan municipalities. The Pools are not regulated nor registered with the SEC. The fair value of the City's investments is the same as the fair value of the Pools.

Interest rate risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of November 30, 2007, \$2,534,996 of the City's bank balance of \$2,761,419 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended November 30, 2007 was as follows:

	Balance December 1, 2006	Additions	Deductions	Balance November 30, 2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,946,506	\$ -	\$ -	\$ 4,946,506
Construction in progress	<u>492,115</u>	<u>56,157</u>	<u>538,497</u>	<u>9,775</u>
Total capital assets, not being depreciated	5,438,621	56,157	538,497	4,956,281
Capital assets, being depreciated:				
Land improvements	322,733	569,351	29,722	862,362
Buildings and other improvements	1,880,798	-	-	1,880,798
Vehicles and equipment	1,819,675	-	9,300	1,810,375
Infrastructure	<u>2,232,370</u>	<u>15,817</u>	<u>-</u>	<u>2,248,187</u>
Total capital assets, being depreciated	6,255,576	585,168	39,022	6,801,722
Less accumulated depreciation:				
Land improvements	218,635	39,192	29,722	228,105
Buildings and other improvements	1,108,212	45,876	-	1,154,088
Vehicles and equipment	1,061,261	111,801	9,300	1,163,762
Infrastructure	<u>124,652</u>	<u>112,014</u>	<u>-</u>	<u>236,666</u>
Total accumulated depreciation	<u>2,512,760</u>	<u>308,883</u>	<u>39,022</u>	<u>2,782,621</u>
Total capital assets, being depreciated, net	<u>3,742,816</u>	<u>276,285</u>	<u>-</u>	<u>4,019,101</u>
Capital assets, net	<u>\$ 9,181,437</u>	<u>\$ 332,442</u>	<u>\$ 538,497</u>	<u>\$ 8,975,382</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,500	\$ -	\$ -	\$ 1,500
Construction in progress	<u>97,995</u>	<u>14,414</u>	<u>112,409</u>	<u>-</u>
Total capital assets, not being depreciated	99,495	14,414	112,409	1,500

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE D—CAPITAL ASSETS—Continued

	Balance December 1, 2006	Additions	Deductions	Balance November 30, 2007
Business-type activities:—Continued				
Capital assets, being depreciated:				
Sewer system	\$ 1,238,796	\$ -	\$ -	\$ 1,238,796
Water system	2,695,886	221,480	75,602	2,841,764
Buildings and improvements	13,795	-	-	13,795
Equipment	50,940	-	-	50,940
Total capital assets, being depreciated	3,999,417	221,480	75,602	4,145,295
Less accumulated depreciation:				
Sewer system	521,343	17,565	-	538,908
Water system	832,876	51,573	75,602	808,847
Buildings and improvements	2,300	919	-	3,219
Equipment	40,040	3,276	-	43,316
Total accumulated depreciation	1,396,559	73,333	75,602	1,394,290
Total capital assets, being depreciated, net	2,602,858	148,147	-	2,751,005
Capital assets, net	\$ 2,702,353	\$ 162,561	\$ 112,409	\$ 2,752,505

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 11,445
Public safety	64,312
Public works	122,702
Culture and recreation	74,742
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	35,682
	<u>\$ 308,883</u>

Business-type activities:

Sewer	\$ 20,419
Water	52,914
	<u>\$ 73,333</u>

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE E—ACCESS RIGHTS

Access rights activity for the year ended November 30, 2007 was as follows:

	Balance December 1, 2006	Additions	Deductions	Balance November 30, 2007
Business-type activities				
Access rights	\$ 110,512	\$ -	\$ -	\$ 110,512
Less accumulated amortization	<u>92,093</u>	<u>18,419</u>	<u>-</u>	<u>110,512</u>
Access rights, net	<u>\$ 18,419</u>	<u>\$ (18,419)</u>	<u>\$ -</u>	<u>\$ -</u>

Amortization

Amortization expense has been charged to sewer.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended November 30, 2007 was as follows:

	Balance December 1, 2006	Additions	Deductions	Balance November 30, 2007
Governmental activities:				
Bond issuance costs	\$ 18,496	\$ -	\$ -	\$ 18,496
Less accumulated amortization	<u>4,098</u>	<u>3,036</u>	<u>-</u>	<u>7,134</u>
Bond issuance costs, net	<u>\$ 14,398</u>	<u>\$ (3,036)</u>	<u>\$ -</u>	<u>\$ 11,362</u>
Business-type activities:				
Bond issuance costs	\$ 16,060	\$ -	\$ -	\$ 16,060
Less accumulated amortization	<u>7,822</u>	<u>1,095</u>	<u>-</u>	<u>8,917</u>
Bond issuance costs, net	<u>\$ 8,238</u>	<u>\$ (1,095)</u>	<u>\$ -</u>	<u>\$ 7,143</u>

Amortization

Amortization expense was charged to functions as follows:

Governmental activities:

Interest on long-term debt	<u>\$ 3,036</u>
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Business-type activities:

Water	<u>\$ 1,095</u>
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City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due to/from other funds:

The General Fund owes \$69,541 to the Contingent and Reserve Fund for transfers not paid as of November 30, 2007.

Advances to/from other funds:

Other governmental funds owes \$7,898 to the Contingent and Reserve Fund for capital projects.

Interfund transfers:

	Transfers in:				
	General	Contingent	Other		
	Fund	and Reserve	governmental	Total	Purpose
		Fund	funds		
Transfers out:					
General Fund	\$ -	\$ 130,691	\$ 8,600	\$ 139,291	see Note J
Contingent and					
Reserve Fund	116,928	-	-	116,928	Capital projects
Millage Fund	7,946	-	-	7,946	Capital projects
Total	<u>\$ 124,874</u>	<u>\$ 130,691</u>	<u>\$ 8,600</u>	<u>\$ 264,165</u>	

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 64,231	\$ -
Grants and fees	<u>-</u>	<u>22,716</u>
Total deferred revenue for governmental funds	<u>\$ 64,231</u>	<u>\$ 22,716</u>

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE I—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended November 30, 2007.

	Balance December 1, 2006	Additions	Reductions	Balance November 30, 2007	Due within one year
Governmental activities:					
General obligation bonds	\$ 1,025,000	\$ -	\$ 75,000	\$ 950,000	\$ 100,000
Michigan Transportation					
Fund bonds	55,000	-	10,000	45,000	15,000
Compensated absences	<u>122,470</u>	<u>61,517</u>	<u>65,537</u>	<u>118,450</u>	<u>59,000</u>
Governmental activity long-term liabilities	<u>\$ 1,202,470</u>	<u>\$ 61,517</u>	<u>\$ 150,537</u>	<u>\$ 1,113,450</u>	<u>\$ 174,000</u>
Business-type activities:					
General obligation bonds	\$ 147,094	\$ -	\$ 36,717	\$ 110,377	\$ 36,643
Revenue bonds	710,000	-	50,000	660,000	50,000
Compensated absences	<u>13,775</u>	<u>7,730</u>	<u>7,197</u>	<u>14,308</u>	<u>7,000</u>
Business-type activity long-term liabilities	<u>\$ 870,869</u>	<u>\$ 7,730</u>	<u>\$ 93,914</u>	<u>\$ 784,685</u>	<u>\$ 93,643</u>

Governmental activities:

General obligation bonds:

Limited Tax General Obligation Bonds of 2005 payable in
annual installments of \$100,000 to \$175,000
through April 2014; interest at rates varying
from 3.25% to 3.6%

\$ 950,000

Michigan Transportation Fund bonds:

\$115,000 Michigan Transportation Fund Bonds of 2001
payable in annual installments of \$15,000
through November 2010; interest at rates
varying from 4.2% to 4.4%

45,000
995,000
118,450
\$ 1,113,450

Compensated absences

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Business-type activities:

General obligation bonds:

\$129,334 Northside Water System Bonds of 1983; payable in annual installments of \$8,200 through February 2022; including interest at 6%	\$ 77,334
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\$110,521 Muskegon County Wastewater Management System Bonds of 2002; final payment of \$33,043 due July 2008; interest at 5%	33,043
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Revenue bonds:

\$895,000 Water Revenue Bonds of 2001 payable in annual installments of \$50,000 to \$55,000 through November 2020; interest at 4.5% to 5.4%	660,000
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Compensated absences	770,377
	14,308
	\$ 784,685

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 20 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

In 2005, the County of Muskegon began making improvements to the regional sewer treatment facilities. The project was funded with \$17,500,000 bonds issued through the State of Michigan Clean Water Revolving Fund Loan Program. The County operates the system and makes payments on the bonds with user charges to the local units. The City has pledged its limited tax full faith and credit for the payment of its portion of the debt should user charges collected by the County be insufficient to make the debt payments. The City's portion of the debt on November 30, 2007 was \$493,794. The City is unaware of any circumstances that would cause a shortfall in the near future.

The City was in compliance in all material respects with all the revenue bond ordinances at November 30, 2007.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE I—LONG-TERM DEBT—Continued

Annual debt service requirements to maturity for debt outstanding as of November 30, 2007 follows:

Year ending November 30,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2008	\$ 115,000	\$ 32,700	\$ 86,643	\$ 39,100
2009	140,000	28,400	53,800	35,000
2010	140,000	23,600	59,000	32,500
2011	125,000	18,800	54,200	29,700
2012	150,000	14,100	54,500	27,100
2013-2017	325,000	12,070	277,000	94,200
2018-2022	-	-	185,234	22,040
	<u>\$ 995,000</u>	<u>\$ 129,670</u>	<u>\$ 770,377</u>	<u>\$ 279,640</u>

NOTE J—UNRESERVED, UNDESIGNATED FUND BALANCE – GENERAL FUND

In accordance with a council resolution, the unreserved, undesignated fund balance in the General Fund is maintained at \$25,000. The Contingent and Reserve Fund receives excess revenues or provides for deficiencies. The transfer from the General Fund to the Contingent and Reserve Fund amounted to \$130,691 for the year ended November 30, 2007.

NOTE K—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE K—OTHER INFORMATION—Continued

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Post-Retirement Health Care

The City has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there were fifteen retired employees receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended November 30, 2007, the City's post-retirement health care cost under the Plan was approximately \$86,000.

The City has also set up a trust fund through the Municipal Employees Retirement System to provide health insurance to retirees under Public Act of 149 of 1999 during the year ended November 30, 2007 and deposited \$29,000 into it. The trust fund was set up in preparation of the City's adoption of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits (OPEB) Other Than Pensions* which is effective for the City on December 1, 2009. GASB 45 will require the City to account for retiree health care benefits on an actuarial basis rather than on a pay-as-you-go basis under which they are currently accounted.

Lease

The City leases an automobile under an operating lease. Lease expense amounted to \$5,386 for the year ended November 30, 2007. The future minimum lease payments for this lease are as follows:

<u>Year ending</u> <u>November 30,</u>	<u>Amount</u>
2008	\$ 4,428
2009	4,428
2010	3,690
	<u>\$ 12,546</u>

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE L—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The City of North Muskegon is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of North Muskegon. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of North Muskegon
1502 Ruddiman Drive
North Muskegon, MI 49445

Funding Policy. Plan members are required to contribute 3 percent of the first \$4,200 of annual compensation and 5 percent of the portion over \$4,200 to the plan. The City is required to contribute at an actuarially-determined rate depending upon position from 8.69 to 15.24 percent of covered wages.

Annual Pension Cost. For the year ended November 30, 2007, the City's annual pension cost was approximately \$132,000 which the City contributed. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

<u>Year ending</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
11/30/05	\$ 81,000	100 %	\$ -
11/30/06	86,000	100	-
11/30/07	132,000	100	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollar amounts in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/04	\$ 3,755	\$ 5,092	\$ 1,337	74 %	\$ 770	174 %
12/31/05	3,863	5,252	1,389	74	772	180
12/31/06	4,033	5,138	1,105	78	769	144

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
November 30, 2007

NOTE L—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

REQUIRED SUPPLEMENTARY INFORMATION

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended November 30, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,477,656	\$ 1,477,101	\$ 1,480,048	\$ 2,947
Licenses and permits	61,300	78,222	80,202	1,980
Intergovernmental revenues				
Federal	-	21,122	21,122	-
State	340,567	351,760	352,988	1,228
Charges for services	81,243	84,799	84,818	19
Fines and forfeitures	12,500	10,700	11,338	638
Investment earnings	45,000	34,000	33,847	(153)
Other	83,817	92,250	100,607	8,357
Total revenues	2,102,083	2,149,954	2,164,970	15,016
EXPENDITURES				
Current				
General government				
City manager	79,175	78,890	78,641	249
Elections	8,400	5,800	5,392	408
Board of review	600	1,225	1,225	-
Clerk	50,338	41,300	41,124	176
Treasurer	49,626	48,100	47,920	180
Assessor	18,940	18,040	17,995	45
Attorney	39,400	36,500	36,131	369
Office - clerical	35,003	35,100	34,675	425
City hall	48,043	47,728	46,252	1,476
Public service building	30,300	42,100	41,784	316
Public safety				
Police department	513,443	514,957	509,283	5,674
Fire department	136,050	142,230	140,158	2,072
Building inspector	14,900	14,400	14,400	-
Public works				
Sidewalk maintenance	30,300	40,450	39,974	476
Street department	89,871	111,500	108,589	2,911
Engineering	3,000	-	-	-
Sanitation	179,429	179,395	170,151	9,244
Culture and recreation				
City parks	37,100	44,575	45,414	(839)
Recreation facilities	47,600	64,000	51,284	12,716
Walker Memorial Library	30,850	32,450	33,002	(552)
Other governmental functions	644,715	612,638	600,148	12,490
Capital outlay	100,000	97,525	87,011	10,514
Total expenditures	2,187,083	2,208,903	2,150,553	58,350
Excess of revenues over expenditures	(85,000)	(58,949)	14,417	73,366
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	1,500	-	-	-
Transfers in	117,000	127,524	124,874	(2,650)
Transfers out	(33,500)	(70,575)	(139,291)	(68,716)
Total other financing sources (uses)	85,000	56,949	(14,417)	(71,366)
Net change in fund balance	\$ -	\$ (2,000)	-	\$ 2,000
Fund balance at December 1, 2006			25,000	
Fund balance at November 30, 2007			\$ 25,000	

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended November 30, 2007

	Budgeted amounts			Variance with final budget- positive (negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u></u>
REVENUES				
Intergovernmental revenues - State	\$ 212,000	\$ 205,672	\$ 206,907	\$ 1,235
Investment earnings	<u>25,000</u>	<u>37,000</u>	<u>37,206</u>	<u>206</u>
Total revenues	237,000	242,672	244,113	1,441
EXPENDITURES				
Current				
Public works	<u>106,267</u>	<u>111,359</u>	<u>109,531</u>	<u>1,828</u>
Net change in fund balance	\$ <u><u>130,733</u></u>	\$ <u><u>131,313</u></u>	134,582	\$ <u><u>3,269</u></u>
Fund balance at December 1, 2006			<u>715,891</u>	
Fund balance at November 30, 2007			\$ <u><u>850,473</u></u>	

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Local Streets Fund
For the year ended November 30, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Intergovernmental revenues - State	\$ 65,000	\$ 77,200	\$ 75,898	\$ (1,302)
Investment earnings	19,000	15,000	15,168	168
Other	8,000	9,980	9,981	1
Total revenues	92,000	102,180	101,047	(1,133)
EXPENDITURES				
Current				
Public works	94,574	122,490	121,496	994
Debt service				
Principal	10,000	10,000	10,000	-
Interest and fees	2,345	2,345	2,345	-
Capital outlay	-	16,000	15,818	182
Total expenditures	106,919	150,835	149,659	1,176
Net change in fund balance	\$ <u>(14,919)</u>	\$ <u>(48,655)</u>	(48,612)	\$ <u>43</u>
Fund balance at December 1, 2006			<u>259,101</u>	
Fund balance at November 30, 2007			\$ <u>210,489</u>	

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Contingent and Reserve Fund
For the year ended November 30, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Charges for services	\$ 3,800	\$ 3,800	\$ 3,800	\$ -
Investment earnings	-	26,500	25,860	(640)
Other	-	-	91,234	91,234
Total revenues	3,800	30,300	120,894	90,594
OTHER FINANCING SOURCES (USES)				
Transfers in	23,000	61,150	130,691	69,541
Transfers out	(100,000)	(119,578)	(116,928)	2,650
Total other financing sources (uses)	(77,000)	(58,428)	13,763	72,191
Net change in fund balance	\$ (73,200)	\$ (28,128)	134,657	\$ 162,785
Fund balance at December 1, 2006			438,403	
Fund balance at November 30, 2007			\$ 573,060	

OTHER SUPPLEMENTAL INFORMATION

City of North Muskegon
COMBINING BALANCE SHEET
 Other Governmental Funds
 November 30, 2007

		<u>Special Revenue</u>		<u>Capital Projects</u>
	<u>Total other governmental funds</u>	<u>Walker Community Center</u>	<u>Summer Recreation</u>	<u>Alley Paving District #02-A</u>
ASSETS				
Cash and investments	\$ 20,579	\$ 2,585	\$ 5,378	\$ 12,616
Special assessments receivable	<u>5,431</u>	<u>-</u>	<u>-</u>	<u>5,431</u>
Total assets	<u>\$ 26,010</u>	<u>\$ 2,585</u>	<u>\$ 5,378</u>	<u>\$ 18,047</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,155	\$ 1,155	\$ -	\$ -
Accrued liabilities	184	105	79	-
Deferred revenue	4,345	-	-	4,345
Advances from other funds	<u>7,898</u>	<u>-</u>	<u>-</u>	<u>7,898</u>
Total liabilities	13,582	1,260	79	12,243
Fund balances				
Reserved for capital projects	5,804	-	-	5,804
Unreserved				
Undesignated	<u>6,624</u>	<u>1,325</u>	<u>5,299</u>	<u>-</u>
Total fund balances	<u>12,428</u>	<u>1,325</u>	<u>5,299</u>	<u>5,804</u>
Total liabilities and fund balances	<u>\$ 26,010</u>	<u>\$ 2,585</u>	<u>\$ 5,378</u>	<u>\$ 18,047</u>

City of North Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended November 30, 2007

		Special Revenue		Capital Projects
	Total other governmental funds	Walker Community Center	Summer Recreation	Alley Paving District #02-A
REVENUES				
Charges for services	\$ 10,286	\$ 3,900	\$ 6,386	\$ -
Investment earnings	1,456	66	257	1,133
Other	3,106	-	-	3,106
Total revenues	14,848	3,966	6,643	4,239
EXPENDITURES				
Current				
Culture and recreation	19,690	12,666	7,024	-
Excess of revenues over (under) expenditures	(4,842)	(8,700)	(381)	4,239
OTHER FINANCING SOURCES				
Transfers in	8,600	8,100	500	-
Net change in fund balances	3,758	(600)	119	4,239
Fund balances at December 1, 2006	8,670	1,925	5,180	1,565
Fund balances at November 30, 2007	\$ 12,428	\$ 1,325	\$ 5,299	\$ 5,804